

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 PA-04 PRS-01 USIA-15 FSE-00 ABF-01 DRC-01

/181 W

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R 141924Z DEC 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6507

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 14807

DEPARTMENT PASS FRB AND TREASURY

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING DECEMBER 14

BEGIN SUMMARY: ON THURSDAY, DECEMBER 13, THE PRIME
MINISTER ANNOUNCED DRASTIC NEW MEASURES TO DEAL WITH THE
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ENERGY SUPPLY CRISIS WHICH INCLUDE A 3-DAY WORK WEEK

STARTING DECEMBER 31. THE CHANCELLOR IS EXPECTED TO ANNOUNCE A MINI-BUDGET ON MONDAY, DECEMBER 17. THE POUND FELL TO AN ALL-TIME LOW AGAINST THE DOLLAR, \$2.3070 ON TUESDAY (DEC. 11) IN REACTION TO THE UK INDUSTRIAL SITUATION, BUT STRENGTHENED ON WEDNESDAY AND CLOSED ON THURSDAY AT \$2.3170. STERLING'S TRADE-WEIGHTED DEVALUATION WIDENED TO 18.9 PERCENT ON TUESDAY (DEC. 11) BUT ALSO NARROWED SLIGHTLY TOWARDS THE END OF THE WEEK. THE GOLD PRICE FELL DURING THE WEEK AND CLOSED ON THURSDAY AT \$103.50, DOWN \$2.75 FROM LAST THURSDAY'S CLOSE. BRITAIN HAD A VISIBLE TRADE DEFICIT OF 270 MILLION POUNDS AND A CURRENT ACCOUNT DEFICIT OF 199 MILLION POUNDS IN NOVEMBER. WHOLESALE PRICES ROSE 1-1/4 PERCENT IN NOVEMBER, SOMEWHAT SLOWER THAN IN OCTOBER. THERE WAS A SHARP DROP IN LENDING BY THE LONDON CLEARING BANKS DURING THE MONTH TO MID-NOVEMBER. END SUMMARY

1. ON THURSDAY, DECEMBER 13, AFTER THE EXECUTIVE OF THE MINE-WORKERS' UNION VOTED TO CONTINUE THEIR BAN ON OVERTIME, THE GOVERNMENT DECIDED TO ACT TO CONSERVE ENERGY SUPPLIES. SUPPLIES OF COAL TO POWER STATIONS ARE NOW 40 PERCENT BELOW NORMAL AND THIS COMBINED WITH THE TRAIN ENGINE DRIVERS' ACTION WHICH THREATENS DELIVERIES OF WHAT COAL THERE IS FORCED THE PRIME MINISTER TO ANNOUNCE ELECTRICITY ECONOMY MEASURES WHICH INCLUDE PUTTING MOST OF BRITAIN ON A 3-DAY WORK WEEK, TELEVISION BROADCASTS ONLY UNTIL 10:30 P.M., AND A CUT TO 65 PERCENT OF NORMAL ELECTRICITY CONSUMPTION FOR CONTINUOUS PROCESS PRODUCTION USES. THE CHANCELLOR, MR. BARBER, IS EXPECTED TO ANNOUNCE ON MONDAY A MAJOR PACKAGE OF FISCAL AND MONETARY MEASURES TO REDUCE DEMAND. FOR DETAILS SEE SEPTELS.

2. THE POUND FELL SHARPLY ON TUESDAY (DECEMBER 11) TO AN ALL-TIME LOW AGAINST THE DOLLAR, \$2.3070. THE FALL WAS DUE MAINLY TO FEARS ABOUT THE INDUSTRIAL SITUATION WHICH CONTINUED TO DETERIORATE DURING THE WEEK. FEARS OF AN EXTREMELY LARGE TRADE DEFICIT FOR NOVEMBER ALSO CAUSED THE POUND TO REMAIN WEAK. WHEN THE FIGURES WERE ANNOUNCED (SEE BELOW) THEY WERE BETTER THAN MANY FEARED

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AND THE POUND ACTUALLY CLOSED HIGHER ON THURSDAY (DEC. 13) AT \$2.3170. THIS WAS 200 POINTS DOWN FROM LAST THURSDAY'S CLOSE. THE TRADE-WEIGHTED DEVALUATION AGAINST SMITHSONIAN RATES WIDENED TO 18.9 PERCENT ON TUESDAY (DEC. 11) BUT NARROWED TO 18.7 PERCENT ON THURSDAY (DEC. 13). THIS COMPARES TO 18.2 PERCENT A WEEK AGO. GOLD MOVED STEADILY DOWNWARD ALL WEEK CLOSING AT \$103.50 ON THURSDAY (DEC. 13).

3. WHILE THE TRADE DEFICIT FOR NOVEMBER WAS THE SECOND HIGHEST ON RECORD, IT WAS BETTER THAN HAD BEEN EXPECTED. THE TRADE DEFICIT WAS 270 MILLION POUNDS (S.A.) WITH IMPORTS OF 1,306 MILLION POUNDS (S.A., F.O.B., B/P BASIS) AND EXPORTS OF 1,036 MILLION POUNDS (S.A., F.O.B., B/P BASIS). THE INVISIBLES ACCOUNT WAS IN SURPLUS BY 71 MILLION POUNDS THUS PUTTING THE CURRENT ACCOUNT IN DEFICIT BY 199 MILLION POUNDS. (SEE LONDON 14726 FOR DETAILS.)

4. WHOLESALE PRICES CONTINUED TO RISE RAPIDLY IN NOVEMBER BUT AT A SLIGHTLY SLOWER RATE THAN IN OCTOBER. THE INDEX FOR OUTPUT PRICES (DOMESTIC SALES) STOOD AT 129.5 COMPARED TO 127.9 IN OCTOBER AND 125.8 IN SEPTEMBER (1970

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L-03 H-03 PA-04 PRS-01 USIA-15 FSE-00 ABF-01 DRC-01

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R 141924Z DEC 73

FM AMEMBASSY LONDON

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INFO AMEMBASSY BERN

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100). THE PRICE OF BASIC MATERIALS PURCHASED BY INDUSTRY ROSE BY 2-3/4 PERCENT IN NOVEMBER. DURING THE LAST SIX MONTHS OUTPUT PRICES HAVE RISEN AT AN ANNUAL RATE OF 15-1/2 PERCENT. IN NOVEMBER THE PRICES CHARGED TO UK MANUFACTURERS FOR BASIC MATERIALS WERE NO LESS THAN 44 PERCENT HIGHER ON AVERAGE THAN 12 MONTHS EARLIER. THESE INDEXES DO NOT YET REFLECT HIGHER OIL PRICES.

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5. STERLING ADVANCES BY THE LONDON CLEARING BANKS TO UK RESIDENTS FELL BY 377 MILLION POUNDS IN THE FIVE-WEEK PERIOD TO NOVEMBER 21, AFTER A RISE OF 749 MILLION POUNDS IN OCTOBER. THIS IS A SIGNIFICANT REVERSAL OF THE PREVIOUS MONTH'S RISE, AND WAS PROBABLY LARGELY CAUSED BY AN UNWINDING OF "ARBITRAGE" TRANSACTIONS UNDERTAKEN IN SEPTEMBER-OCTOBER AND BY THE SWITCHING OF NORMAL BORROWING REQUIREMENTS FROM OVERDRAFTS TO LOWER INTEREST COST SOURCES.

6. THE FORWARD DISCOUNTS ON STERLING WIDENED THIS WEEK IN REACTION TO GLOOMY NEWS ABOUT THE BRITISH ECONOMY.

	12/6	12/13	CHANGE
1 MONTH	0.84	1.45	UP 0.61
3 MONTHS	3.17-1/2	3.90	UP 0.72-1/2
6 MONTHS	6.60-1/2	7.50	UP 0.89-1/2

(ALL FIGURES IN CENTS)

7. LOCAL AUTHORITY DEPOSIT RATES MOVED UP STEADILY DURING THE WEEK.

	12/6	12/13	CHANGE
1 MONTH	14-1/16	14-5/8	UP 9/16
3 MONTHS	15-5/8	16-1/8	UP 1/2
6 MONTHS	15-5/8	16-1/8	UP 1/2

8. EURO-DOLLAR RATES FELL DURING THE WEEK UNTIL THURSDAY (DEC. 13), WHEN THEY MOVED UPWARD.

	12/6	12/13	CHANGE
1 MONTH	10-7/8	10-7/8	UNCHANGED
3 MONTHS	10-3/4	10-7/8	UP 1/8
6 MONTHS	10-3/8	10-3/4	UP 3/8

9. THE MINIMUM LENDING RATE REMAINED FIXED AT 13
PERCENT ON FRIDAY, DECEMBER 14.

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